Disruption at the Door: 
A Taxonomy on Subscription Models in Retailing

Subscription models have become a popular new way for consumers to do their shopping. This paper presents a taxonomy of the three main archetypes of subscription models and develops a classification scheme with type-specific features relevant to their successful management. An implementation framework offers managers a guideline to introduce subscription models of their own.

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A familiar business model is currently disrupting the retail industry: subscriptions are experiencing a renaissance in e-commerce. Subscription business models had already been adopted by European map publishers in 1500, where customers subscribed to upcoming versions of their maps, which were expanded as new territories were conquered. From the 17th century until recently, subscriptions have then mostly been applied to information-related products such as periodicals, books, and ultimately phone plans (Warrillow 2015). Since the early 2000s, the digitization has led to a revival of subscription models, driven at first by purely digital goods, such as multimedia streaming services (e.g., Netflix and Spotify). Most recently, the subscription business model has also arrived in the world of physical goods. Cratejoy, the world’s first subscription marketplace, currently lists more than 1,300 subscriptions ranging from book clubs via food and beverages all the way to adult toys (CrateJoy 2017). Industry analysts predict that subscriptions will proliferate further in e-commerce (Elaguizy 2014). Between January 2013 and January 2016 alone, the demand for such physical subscriptions increased by almost 30 times (Pento 2016). Over history, the subscription business model has thus been applied to various product segments, with a current focus on marketing and consumer goods (see fig. 1).

This recent surge in popularity of subscription business models is at least partly driven by changing consumer demands. Firstly, effortless online shopping has spoiled consumers to expect an ever-increasing level of convenience (Warrillow 2015). Secondly, consumers expect their shopping to delight and inspire them (Rudolph/Boettger/Rudolph 2017). Apparently, subscription models carry a disruptive potential that retailers and producers alike are increasingly becoming aware of.

Given the relevance of emerging subscription business models for retailers, surprisingly little scientific research exists to guide managers in this complex and highly dynamic field. Managers interested in information on venture capital funding (CB Insights 2016). Online marketing experts have already called subscription models “the new black of Internet marketing” (Puel 2015). Moreover, many established retailers such as Lancome, Sephora, Amazon, and Walmart are also exploring possibilities to use subscription services to their advantage (Shopify 2016). The Economist Intelligence Unit surveyed 293 managers across the US, UK, and Australia and found that 40 percent of firms intend to change their pricing and delivery of goods and services by integrating subscriptions (Economist 2013). Apparently, subscription models carry a disruptive potential that retailers and producers alike are increasingly becoming aware of.

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supplier product subscription models, so far, had to resort to popular press (e.g. Fetto 2016; Janzer 2015; Warrell 2015) and aggregators such as the before-mentioned Cratejoy market place. The research gap is apparent, as recent academic research has so far mostly touched upon subscriptions of intangible services, such as cell phone and TV subscriptions, rather than physical consumer goods (e.g., McCarthy/Fader/Hardie 2016). This research aims to address this issue by providing a taxonomy of subscription models based on consumers’ needs, and by identifying the different archetypes’ success factors to provide a guide for managers to create successful subscription services. The qualitative research design of this study encompasses interviews with executives from established subscription providers. For this analysis, the authors conducted seven qualitative interviews with C-level managers from various successful subscription firms. While major retailers such as Amazon already facilitate subscriptions by offering discounts in exchange for consumers’ consent to recurring deliveries, this paper focuses on companies that employ subscriptions as their fundamental business model rather than as an add-on to regular retail activities. This ensures that the findings presented herein are relevant and comprehensive to guide managers in starting a stand-alone subscription business. The interview partners were selected in accordance with the typology presented in this paper, ensuring an equal distribution across subscription archetypes. Samy Liechti of Blacksocks and Fabio Palterghi of Momin’ Glory provide predefined subscriptions of socks and sharing appliances respectively. Anton Schmutz of Adopt-an-Alp (ELSA-MIFROMA), Ano-Sophie May of the Swarovski Crystal Society (SCS) and an anonymous CEO provide curated subscriptions to cheese, crystal figurines, and fashion respectively. Dr. Caren Goehren-Kappesz of Glossybox and Anna Grassler of Glambox have been offering surprise subscriptions for beauty products.

The questionnaire employed across interviews builds on best practices in qualitative research (cf. Seidman 2013; Marshall/Rossman 2014) and grounded theory (Cresswell 2012). To scrutinize subscription models holistically, it corresponds with existing management literature on central dimensions of a firm: customers, finances, competition, strategy, and subscription-specific aspects. Regarding financial and customer-related aspects, the questionnaire touches upon the Balanced Scorecard (Kaplan/Norton 1996) and the Wheel of Loyalty (Lovelock/Wirtz 2010), to identify the value drivers of each subscription type and their associated influence on customer loyalty. It further accounts for competitive aspects by reaching upon the Five Forces framework, thereby identifying the competitive landscape subscription providers find themselves in (Porter 1979). The strategic dimension is reflected in the 7-S Framework, specifically addressing product- and assortment-related strategies of subscription providers (Peters/Waterman/Jones 1982). Finally, subscription-specific questions seek to pinpoint membership-related aspects to identify the degree to which subscription managers promote loyalty features.

The Mechanisms of the Three Types of Subscription Business Models

Subscriptions, defined as an agreement between consumer and firm regarding recurring purchases of a product or service, aim to exploit the technological capabilities of eCommerce to empower more predictable and less expensive models for generating customer value (Baxter 2015). As today’s product-related subscriptions exhibit different extents to which consumers can influence the products they receive, the typology presented herein bases on a continuum of surprise. Existing popular press discourse between two subscription types, delivering either pre-known or surprise items to consumers (Warrell 2015). This paper, however, argues that categorizing subscription models along a continuum of surprise yields three archetypes (i) predefined subscriptions that ship commoditized items, (ii) curated subscriptions that ship products of a certain category selected in accordance with consumers’ preferences, and (iii) surprise subscriptions that ship boxes with content that cannot be controlled by consumers. While there are hybrid subscriptions allowing customers to flexibly adjust the degree of surprise, this study regards each archetype individually and only features subscription firms offering one single type in order to surface clear delineations.

Predefined subscriptions usually keep consumers supplied with everyday items such as razors, socks, and food, guaranteeing access to those products necessary to fulfill regular needs. These subscriptions attract time-constrained well-endowed quality-seeking consumers. Both interviewees, Palterghi and Liechti, agree that their businesses’ raison d’être is convenience, namely to equip customers with regular shipments of the same predefined products whose need is born out of necessity. For this to work, providers of predefined subscriptions, according to Liechti, have to “hand over control to consumers, allowing them to adjust their subscription regarding delivery frequency and shipped amount at any time.” Palterghi agrees with the notion of putting consumers in the driver’s seat: “there is not a one-size-fits-all approach for subscriptions.”

In contrast, surprise subscriptions enable access to inspiration and newest developments within a product category without the active control of the consumer. Rather than convenience, it is the experience of discovery through surprise that underpins surprise subscriptions. The existence of surprise subscriptions is based less on functional necessities rather than hedonic desires. To Grassler, inspiration is key: “people love surprise subscriptions, because they elicit inspiration through three incidents, namely waiting for the delivery, opening the box, and using the products.” Her explanation resembles a retail application of the Schelling’s Cat Paradox: “as soon as a consumer opens the box, one knows what is inside, but as long as it is still closed, everything could be in it.” Genther declares that a surprise subscription does not satisfy a specific necessity, nowhere so natural point exists as in the case of predefined subscriptions: “once an interest for beauty is developed, it only ceases with changing life priorities, such as financial restrictions.”

Curated subscriptions represent a compromise between these two extremes, which combines both functional and hedonic aspects. Curated-subscription retailers provide consumers with customized shopping advice, usually in the form of shopping assistants, who regularly ship products to consumers according to their personal preferences. The fashion industry currently embraces this type of subscription. The manager of the curated fashion sub-

Lessons Learned

1. In order to start a proprietary subscription business, managers should choose a product category of high expertise to them, as subscription models represent specialty retailers.
2. Managers should then choose a customer segment that is strategically important to them, as subscription models need to be tailored to consumers’ needs.
3. Depending on the previous two steps, one should define a gap in one’s firm’s product offering that the subscription model is supposed to fill: convenience or inspiration.
4. Each subscription archetype caters to a different value proposition: increase convenience (predefined subscription), reduce complexity (curated subscription), and stimulate inspiration (surprise subscription).
5. Managers should enforce the success of their subscription by capitalizing on producers via the collection of customer reviews, by allowing for cross-selling via a separate online shop, and by increasing loyalty via the inception of a community.

“There is not a one-size-fits-all approach for subscriptions.”

Figure 1: Historical Development of Subscriptions

Source: Based on Janzer 2015.
scription mentions that, overall, convenience and inspiration are equally important: “not only does our business reduce complexity in the customer journey for fashion, but it inspires consumers with personalized recommendations.” Shipping to specialty cheese retailers abroad, Schmutz can provide exclusive cheese enriched with content on the available Alps: “our subscription sells 80 percent of our products in the first shipment, and the average subscriber increases their purchase frequency by 20 percent.”

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Earning Mechanisms Differ Across the Archetypes

Although all subscription types have one goal in common, namely to generate recurring purchases, the archetypes diverge across various dimensions. In addition to the already established contrasts in customer value, they run on different earning mechanisms (i.e., sources of income and associated ways to reach profitability). At the intersection between convenience and surprise, curated subscriptions create revenue through retailing personalized sets of products to consumers, mostly at a premium. Schmutz mentions that the price per pound of cheese shipped lies around USD 50 to 60 compared to USD 15 to 30 for regular cheese exports. The SCS even breeds long-term customer lifetime value (CLV) by charging an annual subscription fee of EUR 34 to access the assortment, thereby preselecting profitable consumers high on brand affinity. Representing rather a marketing tool than a retailing channel, this subscription type offers an intriguing platform for producers. As a result, surprise subscriptions can add additional profit financially from producers trying to disseminate samples to their target group. According to Grassler, this requires a close management of suppliers: “It is important to choose suppliers that are reliable and that provide high-quality products.”

Table 1: A Taxonomy on the Three Archetypes of Product Subscription Models

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>Customer Value</strong></td>
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<td>Predefined Subscriptions</td>
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<td><strong>USP</strong></td>
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<td>Convenience</td>
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<td><strong>Outcome</strong></td>
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<td>Equipment with Expected Product</td>
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<td><strong>Product Sourcing</strong></td>
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<td>Mostly Proprietary Products</td>
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<td><strong>General KPIs</strong></td>
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<td>Customer Acquisition Costs</td>
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<td><strong>KPIs</strong></td>
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<td><strong>Exemplary Firms</strong></td>
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<td>Dollar Shave Club</td>
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<td>MomIt Glory</td>
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Main Propositions

1. There are three main types of subscription models in retailing, which exist along a continuum of surprise.

2. Predefined subscriptions ship products already known to the consumer, automating restocking purchases of products such as shaving blades.

3. Curated subscriptions ship products assorted according to consumers’ preferences, simplifying purchases involving complex decision-making as in the case of clothing.

4. Surprise subscriptions ship products independently assorted by the subscription provider, inspiring consumers in categories of high involvement.

5. Complementing subscriptions with a customer review system, an online shop, or a community helps to increase profitability, revenues, and customer loyalty.

Blacksocks, for example, is willing to acquire a customer at the cost of their first-year net contribution thus aiming at a long-term payoff: “the first renewal after the first delivery is the most critical moment. If a customer subscribes after the first shipment, he will remain a customer as long as blood circulates through his legs.” Subscriptions can add additional boost their profitability in the short run by complementing their subscription revenues through an eCommerce shop. Blacksocks, for example, operates an online shop, which generates 50 percent of its revenue. Palenglai aims to add further niche products in the future, such as intimate grooming products: “subscriptions are a starting point for expansion into further related niche categories.” The opportunity for cross-selling category-congruent products eventually motivated Unilever to purchase One Dollar Shave Club, a U.S.-based predefined shaver subscription, for more than one billion U.S. dollars, “as only few such businesses prosper in the long term by selling a single product” (Livsey 2017).

Surprise subscriptions, empowered by the inspiration mechanism, earn additional revenues by involving producers. Generating inspiration via an ever-changing assortment in a specific product category, surprise subscriptions gather a consumer base that is highly consistent regarding their category affinity. Representing rather a marketing tool than a retailing channel, this subscription type offers an intriguing platform for producers. As a result, surprise subscriptions can add additional profit financially from producers trying to disseminate samples to their target group. According to Grassler, this requires a close management of suppliers: “It is important to choose suppliers that are reliable and that provide high-quality products.”

Complementing subscriptions with a customer review system, an online shop, or a community helps to increase profitability, revenues, and customer loyalty.
**Predefined subscriptions help consumers to absorb necessary tasks they do not want to take care of themselves.**

Managers should consider a few points upon designing a subscription model. In order to perform well, according to the above delineations, subscription models need to be strategically well aligned with a firm’s capabilities and customers’ needs. To this end, this study outlines the subscription implementation framework that guides managers through the process of creating an archetypical subscription (see fig. 2).

Building on the qualitative interviews, this framework assists managers of incumbent retailers to embrace the subscription business model by highlighting the hierarchically necessary steps to build a coherent subscription business. It, therefore, helps to identify the products and customers that the firm aims to focus on strategically (steps 1 and 2), thereby laying the foundation to build a value proposition that the subscription should fulfill (step 3), on top of which builds the eventual subscription model (step 4) and additional services (step 5).

Firstly, one needs to choose a product category in which the intended subscription provider has expertise. This proves crucial in providing a subscription that adds true value in the eyes of customers. Secondly, one has to define customer segments that are relevant to the firm, as subscriptions are usually highly focused on a certain target group. Thirdly, one needs to define the main goal the subscription should achieve. Usually, this decision comes down to an existing gap in a company’s product offering. Being so targeted, subscriptions can be used to fill a gap either with regards to convenience or inspiration. Fourthly, one needs to choose the subscription type, i.e., a predefined, curated, or surprise subscription. This step partly depends on the decision taken in step three. Convenience-related needs are best addressed through either predefined or curated subscription models. In order to perform well, according to the above delineations, subscriptions succeed if a product category has the potential to widen consumers’ horizons to try out further products of the same category. This mechanism only works if a critical number of consumers highly affine to this category exists. To manage the complexity of an experience-oriented subscription is both art and science. Curated subscriptions thrive when the customer journey of a product category is characterized by a complexity that drives both confusion and curiosity. If this is the case, then the controlled inspiration and convenience-oriented surprise create an added value for consumers.

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**Figure 2: Subscription Implementation Framework**

<table>
<thead>
<tr>
<th>1 Choose Product Category</th>
<th>2 Define Customer Segments</th>
<th>3 Define Main Goal</th>
<th>4 Choose Subscription Type</th>
<th>5 Add Additional Services</th>
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</thead>
<tbody>
<tr>
<td>• Identify product categories with high in-house expertise</td>
<td>• Identify main customer segments within chosen product category</td>
<td>• Address gaps in own offering: 1. Appeal to functional needs through convenience 2. Appeal to hedonic needs through hedonism</td>
<td>• Increase convenience (Predefined)</td>
<td>• Capitalize on producers via customer reviews (Surprise)</td>
</tr>
<tr>
<td>• Decide for a product category to be expanded by subscriptions</td>
<td>• Highlight the needs of each customer segment in terms of functionality and hedonism</td>
<td>• Increase convenience (Predefined)</td>
<td>• Reduce complexity or increase immersion via personalization (Curated)</td>
<td>• Grow revenue &amp; profits through cross-selling (Predefined &amp; Surprise)</td>
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<tr>
<td>• Prioritize strategically important categories</td>
<td></td>
<td>• Stimulate inspiration (Surprise)</td>
<td></td>
<td>• Increase loyalty (Curated &amp; Surprise)</td>
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**Predefined subscriptions help consumers to absorb necessary tasks they do not want to take care of themselves.**

**Predefined subscriptions** help consumers to absorb necessary tasks they do not want to take care of themselves, leading to a higher retention rate. These five steps can lay the foundation for future subscription providers to partake in the growth of this disruptive form of retailing.

**Conclusion**

There are three types of subscription models in retailing. Each one satisfies different customer needs. Predefined subscription should only be chosen if a general need born out of necessity is to be fulfilled. People today value their time to be used on what’s relevant to them. Predefined subscription should only be chosen if a general need born out of necessity is to be fulfilled. People today value their time to be used on what’s relevant to them. Predefined subscriptions succeed if a product category has the potential to widen consumers’ horizons to try out further products of the same category. This mechanism only works if a critical number of consumers highly affine to this category exists. To manage the complexity of an experience-oriented subscription is both art and science. Curated subscriptions thrive when the customer journey of a product category is characterized by a complexity that drives both confusion and curiosity. If this is the case, then the controlled inspiration and convenience-oriented surprise create an added value for consumers.